

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Claiborne County Hospital and Nursing Home (a component unit of Claiborne County, Tennessee)

We have audited the accompanying consolidated financial statements of Claiborne County Hospital and Nursing Home (a component unit of Claiborne County, Tennessee), as of and for the years ended June 30, 2009 and 2008, which comprise Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) basic financial statements as listed in the table of contents. These financial statements are the responsibility of Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Claiborne County Hospital and Nursing Home (a component unit of Claiborne County, Tennessee), as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009, on our consideration of Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee), internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Burd, Pearlman, Naffner, Huggins, PLLC
Chattanooga, Tennessee
December 8, 2009

Claiborne County Hospital and Nursing Home
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

Our discussion and analysis of Claiborne County Hospital and Nursing Home's (the Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 8.

Financial Highlight

- The Hospital's net assets decreased in 2009 by \$2,215,030, or 14%, after showing a decrease of \$805,328, or 5%, in 2008.
- Operating revenues decreased 3.6% from 2008, while operating expenses increased at a rate of 0.4%.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

Our analysis of the Hospital's finances begins on page 8. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. Net assets, which are the difference between assets and liabilities, are one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets indicate whether its financial health is improving or deteriorating. Other non-financial factors that warrant consideration are changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Claiborne County Hospital and Nursing Home
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008
(Continued)

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as "Where did the cash come from?" "What was the cash used for?" and "What was the change in cash balance during the reporting period?"

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 8. The Hospital's net assets decreased in 2009 by \$2,215,030, or 14%, after showing a decrease of \$805,328, or 5%, in 2008. See Exhibit One for an illustration.

Current assets	\$9,355,270	\$11,307,716
Capital assets, net	15,318,320	15,758,962
Other noncurrent assets	229,568	205,152
Total assets	<u>24,903,158</u>	<u>27,271,830</u>

Liabilities:

Long-term liabilities	6,570,333	7,046,088
Other	4,143,069	3,820,956
Total Liabilities	<u>10,713,402</u>	<u>10,867,044</u>

Net assets:

Invested in capital assets, net of related debt	8,161,330	8,091,275
Unrestricted	6,028,426	8,313,511
Total Net Assets	<u>\$14,189,756</u>	<u>\$16,404,786</u>

Claiborne County Hospital and Nursing Home
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008
(Continued)

Operating Results and Changes in the Hospital's Net Assets

The Hospital's net assets decreased in 2009 by \$2,215,030, or 14%, after showing a decrease of \$805,328, or 5%, in 2008, as shown in Exhibit Two.

Exhibit two: Operating Results and Changes in Net Assets

	2009	2008
OPERATING REVENUE		
Net patient service revenue	\$31,876,555	\$32,934,608
Unrestricted contributions	--	82,000
Other revenue	890,775	960,269
	<hr/>	<hr/>
TOTAL OPERATING REVENUE	32,767,330	33,976,877
	<hr/>	<hr/>
OPERATING EXPENSES		
Salaries and benefits	21,914,334	21,961,228
Medical supplies and drugs	3,747,975	3,774,388
Other supplies	771,151	935,105
Insurance	631,327	613,353
Depreciation and amortization	1,298,132	1,248,489
Other expenses	6,461,629	6,147,002
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	34,824,548	34,679,565
	<hr/>	<hr/>
OPERATING INCOME (LOSS)	(2,057,218)	(702,688)
NONOPERATING INCOME (EXPENSES)		
Investment income	137,195	93,954
Interest expense	(295,007)	(171,594)
Loss on disposal of capital assets	--	(25,000)
	<hr/>	<hr/>
NONOPERATING INCOME (LOSS)	(157,812)	(102,640)
	<hr/>	<hr/>
INCREASE (DECREASE) IN NET ASSETS	(2,215,030)	(805,328)
Net assets at beginning of year	16,404,786	17,210,114
	<hr/>	<hr/>
Net assets at end of year	\$14,189,756	\$16,404,786
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Claiborne County Hospital and Nursing Home
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008
(Continued)

Operating Income

The first component of the overall changes in the Hospital's net assets is its operating income – generally the difference between net patient service revenue and the expenses incurred to perform those services. In 2008, the Hospital reported a net operating loss for the first time in over 9 years.

- Overall, Inpatient Admissions increased 4.8% from previous years while Outpatient Visits increased at a rate of 7%.
- CT scan volume increased 16.2% and routine x-ray procedures increased 5.5% from the previous year.
- Laboratory Tests increased 5.7% from the previous year.
- Surgeries increased 3.5% over the previous year.
- Home Health Visits decreased 10.2% from the previous year.
- Private Duty Hours decreased 48.8% from the prior year.
- Physical, Occupational, and Speech Therapies decreased 10% from the previous year.

Other operating expenses increased due to the purchase of anesthesia services as a temporary arrangement as well as a full year of professional services and other expenses related to the prior year acquisition of a physician practice.

Nonoperating Revenues

Nonoperating revenues consist primarily of interest income from interest paid on cash accounts and/or various certificates of deposit that were held by the Hospital during the years ended June 30, 2009 and 2008.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in capital assets, operating income, and nonoperating revenues, as discussed earlier.

Claiborne County Hospital and Nursing Home
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008
(Continued)

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2009, the Hospital had \$15,318,320 invested in capital assets, net of accumulated depreciation, as detailed in Note D to the financial statements. During fiscal year 2009 the Hospital purchased new equipment and continued with renovations of the Hospital. The costs of these activities in 2009 were \$847,965, of which \$547,969 was for capital equipment, \$101,432 was construction in progress and \$198,664 were for building improvements and land. The construction in progress consisted primarily of items related to a Certificate of Need obtained by the hospital for an Inpatient Rehabilitation Facility. Renovations were completed subsequent to June 30, 2009, with the wing opening in spring 2010 fiscal year. The Medical Office Building was completed in April of 2008, with the exception of build-out remaining for part of the first floor and all of the second floor. Estimated cost to complete the build-out is approximately \$1,000,000 (Note Q). The costs of these activities in 2008 were \$3,703,122, of which \$657,865 was for capital equipment, \$54,590 was construction in progress, and \$2,990,667 was for building improvements and land.

Debt. At year-end, the Hospital had \$7,156,990 in notes payable and bonds outstanding. The Hospital issued bonds totaling \$4,010,000 in repayment of the line of credit referenced in Note F to the financial statements.

Other Economic Factors

The continued growth in health insurance costs which places additional burdens on employers and employees has led to increased risk of employees without coverage.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, creditors, and other stakeholders with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Any questions about this report or requests for additional financial information should be directed to Claiborne County Hospital and Nursing Home, Department of Finance, 1850 Old Knoxville Road, Tazewell, TN 37879.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
CONSOLIDATED BALANCE SHEETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$2,190,529	\$2,269,910
Patient accounts receivable, net of estimated uncollectibles of \$3,070,000 in 2009 and \$2,900,000 in 2008	6,212,969	7,909,829
Other receivables	234,370	409,706
Inventories	350,672	356,461
Prepaid expenses	254,604	307,309
Estimated amounts due from third-party payors	<u>112,126</u>	<u>54,501</u>
TOTAL CURRENT ASSETS	<u>9,355,270</u>	<u>11,307,716</u>
CAPITAL ASSETS		
Land	308,092	308,092
Construction in progress	156,022	54,590
Depreciable capital assets, net of accumulated depreciation	<u>14,854,206</u>	<u>15,396,280</u>
TOTAL CAPITAL ASSETS, net	<u>15,318,320</u>	<u>15,758,962</u>
OTHER ASSETS		
Other noncurrent receivables	115,942	154,262
Bond issuance costs, net of accumulated amortization of \$96,664 and \$87,139 in 2009 and 2008	<u>113,626</u>	<u>50,890</u>
TOTAL OTHER ASSETS	<u>229,568</u>	<u>205,152</u>
TOTAL ASSETS	<u>\$24,903,158</u>	<u>\$27,271,830</u>

See accompanying notes to consolidated financial statements.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
CONSOLIDATED BALANCE SHEETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of notes payable and capital leases	\$446,657	\$483,821
Current maturities of bonds payable	140,000	137,778
Accounts payable and accrued expenses	1,866,971	1,571,969
Accrued payroll and withholdings	856,246	841,966
Accrued compensated absences	827,797	773,292
Deferred revenue	<u>5,398</u>	<u>12,130</u>
TOTAL CURRENT LIABILITIES	<u>4,143,069</u>	<u>3,820,956</u>
LONG-TERM DEBT, net of current maturities		
Notes payable and capital leases	1,403,996	1,848,054
Line of credit	—	3,901,697
Bonds payable	<u>5,166,337</u>	<u>1,296,337</u>
TOTAL LONG-TERM DEBT, net of current maturities	<u>6,570,333</u>	<u>7,046,088</u>
TOTAL LIABILITIES	<u>10,713,402</u>	<u>10,867,044</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,161,330	8,091,275
Unrestricted	<u>6,028,426</u>	<u>8,313,511</u>
TOTAL NET ASSETS	<u>14,189,756</u>	<u>16,404,786</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$24,903,158</u>	<u>\$27,271,830</u>

See accompanying notes to consolidated financial statements.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE		
Net patient service revenue	\$31,876,555	\$32,934,608
Unrestricted contributions	--	82,000
Other revenue	<u>890,775</u>	<u>960,269</u>
TOTAL OPERATING REVENUE	<u>32,767,330</u>	<u>33,976,877</u>
OPERATING EXPENSES		
Salaries and benefits	21,914,334	21,961,228
Medical supplies and drugs	3,747,975	3,774,388
Other supplies	771,151	935,105
Insurance	631,327	613,353
Depreciation and amortization	1,298,132	1,248,489
Other expenses	<u>6,461,629</u>	<u>6,147,002</u>
TOTAL OPERATING EXPENSES	<u>34,824,548</u>	<u>34,679,565</u>
OPERATING LOSS	<u>(2,057,218)</u>	<u>(702,688)</u>
NONOPERATING INCOME (EXPENSES)		
Investment income	137,195	93,954
Interest expense	(295,007)	(171,594)
Loss on disposal of capital assets	--	<u>(25,000)</u>
NONOPERATING LOSS, net	<u>(157,812)</u>	<u>(102,640)</u>
DECREASE IN NET ASSETS	<u>(2,215,030)</u>	<u>(805,328)</u>
Net assets at beginning of year	<u>16,404,786</u>	<u>17,210,114</u>
Net assets at end of year	<u>\$14,189,756</u>	<u>\$16,404,786</u>

See accompanying notes to consolidated financial statements.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$33,515,790	\$31,117,916
Other operating cash receipts	890,775	1,042,269
Cash payments to suppliers for goods and services	(15,073,906)	(14,964,694)
Cash payments to employees for services	<u>(17,823,305)</u>	<u>(17,932,765)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>1,509,354</u>	 <u>(737,274)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	 =	 =
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(847,965)	(3,283,363)
Net payments on lines of credit	(3,901,697)	--
Principal paid on long-term debt	(619,000)	(590,305)
Proceeds from bond issuance	4,010,000	3,790,550
Interest paid on long-term debt	(295,007)	(289,360)
Bond issuance costs	<u>(72,261)</u>	=
 NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(1,725,930)</u>	 <u>(372,478)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>137,195</u>	<u>93,954</u>
 Net decrease in cash	 (79,381)	 (1,015,798)
Cash at beginning of year	<u>2,269,910</u>	<u>3,285,708</u>
 Cash at end of year	 <u>\$2,190,529</u>	 <u>\$2,269,910</u>

See accompanying notes to consolidated financial statements.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$(2,057,218)	\$(702,688)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	1,288,607	1,240,746
Amortization of bond issuance costs	9,525	7,743
Provision for bad debts	5,069,727	3,303,148
(Increase) decrease:		
Patient accounts receivable	(3,372,867)	(5,058,626)
Inventories, prepaid expenses and other current assets	176,205	(125,590)
Other assets	38,320	92,700
Increase (decrease):		
Accounts payable and accrued expenses	295,002	242,236
Accrued payroll and withholdings	14,280	160,656
Accrued compensated absences	54,505	110,904
Other liabilities	<u>(6,732)</u>	<u>(8,503)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$1,509,354</u>	<u>\$(737,274)</u>
SUPPLEMENTAL DISCLOSURE		
Noncash investment in equipment through capital lease	\$--	<u>\$ 219,290</u>

See accompanying notes to consolidated financial statements.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Reporting entity. Claiborne County Hospital and Nursing Home (the Hospital) operates a general short-term acute care hospital and a nursing home and is a component unit of Claiborne County, Tennessee (the County). The Hospital, located in Tazewell, Tennessee, includes an 85-bed acute care facility which provides inpatient and outpatient healthcare to residents of Claiborne and surrounding counties. The Hospital also operates a 100-bed nursing home. In addition, the Hospital is the sole shareholder of Claiborne Home Health Care (formerly Tennessee Nursing Services of Morristown), a for-profit home health agency and Multi-Specialty Medical, P.C., a for-profit physicians' office, whose financial statements are consolidated with those of the Hospital.

The Hospital was organized by the Claiborne County Board of Commissioners. The Hospital is administered by a Board of Directors appointed by the County Commission. The County has authorized the Board of Directors to manage the operations of the Hospital. The Hospital may not issue bond debt without the County's approval. For these reasons, the Hospital is considered to be a component unit of the County and is included as a discretely presented component unit in the basic financial statements of the County.

In fiscal year 2001, Claiborne County Healthcare Foundation, Inc. (the Foundation) was formed to support the Hospital and other community activities. The Foundation had minimal assets, liabilities and operations in 2009 and 2008. Management believes the Foundation does not meet the criteria for consolidation with the Hospital and, as such, no assets or liabilities related to the Foundation are indicated in the accompanying consolidated financial statements.

Basis of accounting. The Hospital utilizes the accrual method of accounting and the economic resource measurement focus. Revenues are recorded when earned, and expenses are recognized when incurred.

Principles of Consolidation. The consolidated financial statements include the accounts of the Hospital and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Accounting standards. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. If the FASB pronouncements conflict or contradict GASB pronouncements, GASB prevails.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Cash and cash equivalents. The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with original maturities of three months or less to be cash equivalents. State statutes authorize the Hospital to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements and pooled investment funds, and state or local bonds rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2009 and 2008.

Patient receivables. For patient receivables, the allowance for doubtful accounts is based on management's assessment of the collectibility of specific patient's accounts and the aging of the account receivable. If there is a deterioration of a patient's credit worthiness or actual defaults are higher than historical experience, management's estimates of recoverability of amounts due to the Hospital could be adversely affected.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market.

Capital assets. Capital assets are recorded at cost. Depreciation is provided over the estimated useful lives of depreciable assets and is computed on the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. A summary of estimated useful lives of capital assets follows.

<u>Description</u>	<u>Estimated useful lives</u>
Buildings and improvements	15 to 40 years
Equipment	5 to 25 years

Costs of borrowing. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of \$117,766 was capitalized in 2008.

Bond issuance and financing costs. Costs incurred in issuing the Series 1995, 1997, V-J-1 and V-J-2 bonds are amortized using the straight-line method over the terms of the bonds.

Other receivables. In 2009 and 2008, other receivables consist primarily of a payment due from the State of Tennessee for the Hospital's participation in TennCare and physician income guarantees and recruitment agreements.

Operating revenues and expenses. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Revenue from the Medicare and Nursing Home Medicaid programs accounted for approximately 43 and 10 percent, respectively, of the Hospital's net patient revenue for the year ended June 30, 2009. Revenue from the Medicare and Nursing Home Medicaid programs accounted for approximately 44 and 9 percent, respectively, of the Hospital's net patient revenue for the year ended June 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other operating revenues include charges for sale of medical and pharmaceutical supplies, medical transcripts, and cafeteria and vending sales, etc.

Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity care. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges forgone for services and supplies furnished under the Hospital's charity care policy during the years ended June 30, 2009 and 2008 was \$700,000 and \$710,000, respectively.

Income taxes. The Hospital, as a component unit of Claiborne County, is an exempt organization as described in Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements for the Hospital, although its subsidiaries, Claiborne Home Health Care and Multi-Specialty Medical, P.C. are for-profit entities. However, any taxes are deemed immaterial to the consolidated financial statements.

Risk management. The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health benefits. Commercial insurance coverage (excluding employee health benefits insurance coverage) is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for employee health benefits.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the payment arrangements with major third-party payors follows.

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The Hospital is reimbursed for Medicare outpatient services under a prospective payment system based on clinical, diagnostic, and other factors.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Home health services for Medicare beneficiaries are reimbursed based on a prospective payment system based upon clinical, diagnostic, and other factors.

TennCare. On January 1, 1994, the Medicaid program for acute care services was replaced by a waiver program approved by the Hospital for Medicare and Medicaid Services. Under the program, the Hospital enters into agreements with state contracted managed care organizations which reimburse the Hospital using various payment methodologies, such as prospectively determined rates per discharge, prospectively determined daily rates, and discounts from established charges.

Medicaid - Intermediate and Skilled Care. The Medicaid program reimburses the Hospital for services rendered to Medicaid nursing home beneficiaries based on prospective per diem rates established by the Medicaid program. The per diem rates established by Medicaid are based on the prior years' costs, subject to ceilings set by the State of Tennessee.

Medicare - Skilled Care. Medicare reimburses nursing homes on prospectively determined rates per day. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Others. The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - DEPOSITS

The carrying amounts of the Hospital's deposits with commercial banks were \$2,190,529 and \$2,269,910 and the bank balances were \$2,290,206 and \$2,563,751 at June 30, 2009 and 2008, respectively.

Custodial credit risk. Custodial risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital's bank balance of deposits was \$2,290,206 and \$2,563,751 at June 30, 2009 and 2008, respectively. The bank balances held in cash accounts are either insured by the Federal Deposit Insurance Corporation or collateralized by the Tennessee Bank Collateral Pool and are not subject to custodial risk.

Interest rate risk. For an investment, this is the risk that a change in interest rates will affect the fair market value of investments held. At June 30, 2009 and 2008, the Hospital had no investments.

The Hospital currently has no formal policy addressing interest rate or custodial risk, except to comply with State statutes.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D - CAPITAL ASSETS

A summary of capital assets at June 30, 2009 and 2008, follows.

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$308,092	\$--	\$--	\$308,092
Construction in progress	<u>54,590</u>	<u>101,432</u>	--	<u>156,022</u>
Total capital assets not being depreciated	<u>362,682</u>	<u>101,432</u>	--	<u>464,114</u>
Capital assets being depreciated:				
Buildings and improvements	17,913,655	198,664	--	18,112,319
Equipment	<u>13,504,440</u>	<u>547,869</u>	--	<u>14,052,309</u>
Total capital assets being depreciated	<u>31,418,095</u>	<u>746,533</u>	--	<u>32,164,628</u>
Less accumulated depreciation for:				
Buildings and improvements	5,898,594	489,917	--	6,388,511
Equipment	<u>10,123,221</u>	<u>798,690</u>	--	<u>10,921,911</u>
Total accumulated depreciation	<u>16,021,815</u>	<u>1,288,607</u>	--	<u>17,310,422</u>
Total capital assets being depreciated, net	<u>15,396,280</u>	<u>(542,074)</u>	--	<u>14,854,206</u>
Capital assets, net	<u>\$15,758,962</u>	<u>\$(440,642)</u>	\$--	<u>\$15,318,320</u>

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$308,092	\$--	\$--	\$308,092
Construction in progress	<u>1,130,120</u>	<u>2,476,761</u>	<u>(3,552,291)</u>	<u>54,590</u>
Total capital assets not being depreciated	<u>1,438,212</u>	<u>2,476,761</u>	<u>(3,552,291)</u>	<u>362,682</u>
Capital assets being depreciated:				
Buildings and improvements	13,912,868	4,120,787	(120,000)	17,913,655
Equipment	<u>12,846,575</u>	<u>657,865</u>	--	<u>13,504,440</u>
Total capital assets being depreciated	<u>26,759,443</u>	<u>4,778,652</u>	<u>(120,000)</u>	<u>31,418,095</u>
Less accumulated depreciation for:				
Buildings and improvements	5,556,917	436,677	(95,000)	5,898,594
Equipment	<u>9,319,152</u>	<u>804,069</u>	--	<u>10,123,221</u>
Total accumulated depreciation	<u>14,876,069</u>	<u>1,240,746</u>	<u>(95,000)</u>	<u>16,021,815</u>
Total capital assets being depreciated, net	<u>11,883,374</u>	<u>3,537,906</u>	<u>(25,000)</u>	<u>15,396,280</u>
Capital assets, net	<u>\$13,321,586</u>	<u>\$6,014,667</u>	<u>\$(3,577,291)</u>	<u>\$15,758,962</u>

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE E - NOTES PAYABLE AND CAPITAL LEASES

A summary of notes and leases payable at June 30, 2009 and 2008, follows.

	Balance June 30, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2009</u>	Amount Due in <u>One Year</u>
4.375% note payable in monthly installments of \$4,553, including interest, until February 2009; secured by equipment with a depreciated cost of \$0 at June 30, 2009 and 2008, respectively	\$36,819	\$--	\$36,819	\$--	\$--
4% note payable in monthly installments of \$2,156, including interest, until October 2008; secured by equipment with a depreciated cost of \$52,666 and \$64,370 at June 30, 2009 and 2008, respectively	8,552	--	8,552	--	--
Non-interest bearing note payable in monthly installments of \$3,000 until March 2018, unsecured	348,000	--	36,000	312,000	33,000
Non-interest bearing note payable in monthly installments of \$7,709 until May 2018, unsecured	740,000	--	--	740,000	7,709
4.6% note payable in monthly installments of \$29,777, including interest, until March 2011; secured by equipment with a depreciated cost of \$694,910 and \$972,874 at June 30, 2009 and 2008, respectively	921,346	--	323,664	597,682	326,923
Capital lease obligation at an imputed interest rate of 6.64% payable in monthly installments of \$2,715, secured by equipment with a depreciated cost of \$115,480 and \$124,718 at June 30, 2009 and 2008, respectively	99,351	--	26,693	72,658	23,640
Capital lease obligation at an imputed interest rate of 5.00% payable in monthly installments of \$3,982, secured by equipment with a depreciated cost of \$146,979 and \$164,270 at June 30, 2009 and 2008, respectively	139,671	--	38,190	101,481	43,704
Capital lease obligation at an imputed interest rate of 3.28% payable in monthly installments of \$1,032, secured by equipment with a depreciated cost of \$39,906 and \$44,218 at June 30, 2009 and 2008, respectively	<u>38,136</u>	<u>--</u>	<u>11,304</u>	<u>26,832</u>	<u>11,681</u>
Total notes payable and capital leases	<u>\$2,331,875</u>	<u>\$--</u>	<u>\$481,222</u>	<u>\$1,850,653</u>	<u>\$446,657</u>

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amount Due in One Year
4.375% note payable	\$87,601	\$ --	\$ 50,782	\$36,819	\$36,819
4% note payable	33,532	--	24,980	8,552	8,552
5% note payable	5,425	--	5,425	--	--
Non-interest bearing note payable	--	360,000	12,000	348,000	36,000
Non-interest bearing note payable	--	740,000	--	740,000	--
4.6% note payable	1,228,448	--	307,102	921,346	321,659
Capital lease obligation at an imputed interest rate of 6.64%	126,438	--	27,087	99,351	26,788
Capital lease obligation at an imputed interest rate of 5.00%	--	172,916	33,245	139,671	41,740
Capital lease obligation at an imputed interest rate of 3.28%	--	46,374	8,238	38,136	12,263
Total notes payable and capital leases	<u>\$1,481,444</u>	<u>\$1,319,290</u>	<u>\$468,859</u>	<u>\$2,331,875</u>	<u>\$483,821</u>

Scheduled payments on notes payable and capital leases are as follows.

<u>Year Ending June 30,</u>	<u>Notes Payable</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$367,632	\$30,367	\$79,025	\$8,300
2011	399,267	22,889	88,128	4,628
2012	128,508	--	33,818	640
2013	128,508	--	--	--
2014	128,508	--	--	--
2015-2018	<u>497,259</u>	--	--	--
Total	<u>\$1,649,682</u>	<u>\$53,256</u>	<u>\$200,971</u>	<u>\$13,568</u>

NOTE F - LINE OF CREDIT

The Hospital had a line of credit with First Century Bank with a maximum limit of \$5,035,095 which expired on February 14, 2009. Amount outstanding on the line was \$3,901,697 at June 30, 2008. Outstanding principal of \$3,901,697 and related interest were paid off March 1, 2009, with bond proceeds.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE G - BONDS

A summary of bonds at June 30, 2009 and 2008, follows.

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amount Due in One Year
Series 1997	\$785,000	\$--	\$60,000	\$725,000	\$60,000
Series 1998	649,115	--	77,778	571,337	80,000
Series V-J-1	--	2,980,000	--	2,980,000	--
Series V-J-2	--	1,030,000	--	1,030,000	--
Total bonds	<u>\$1,434,115</u>	<u>\$4,010,000</u>	<u>\$137,778</u>	<u>\$5,306,337</u>	<u>\$140,000</u>

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amount Due in One Year
Series 1997	\$840,000	\$ --	\$55,000	\$785,000	\$60,000
Series 1998	<u>715,561</u>	<u>--</u>	<u>66,446</u>	<u>649,115</u>	<u>77,778</u>
Total bonds	<u>\$1,555,561</u>	<u>\$ --</u>	<u>\$121,446</u>	<u>\$1,434,115</u>	<u>\$137,778</u>

On September 1, 1997, Claiborne County issued \$1,200,000 in Hospital Revenue and Tax Bonds, Series 1997. Interest on these bonds is from 4.5% to 7%. The proceeds of these bonds were used to construct the 100-bed nursing home facility. Bonds maturing through March 1, 2008 shall mature without option of prior redemption. Bonds maturing March 1, 2008 and thereafter shall be subject to redemption prior to maturity at the option of the County as a whole or in part on March 1, 2008 and thereafter at a premium equal to one quarter of one percent of the principal amounts so redeemed for each full year intervening between the date fixed for redemption and the stated maturity date.

On March 1, 1995, Claiborne County issued \$1,250,000 in Hospital Revenue and Tax Bonds, Series 1995. Interest on these Bonds is from 3.8% to 4.9%. The proceeds of these bonds were issued for the purpose of providing funds to finance, in part, the construction of essential Hospital facilities. Bonds maturing through March 1, 2005 will mature without option of prior redemption. Bonds maturing March 1, 2006 and thereafter were defeased by the County on March 1, 1998, with the issuance of Series 1998 Refunding Bonds as discussed below.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

On March 1, 1998, Claiborne County (the County) issued General Obligation Refunding Bonds, Series 1998 (the Refunding Bonds). A portion of the proceeds of the Series 1998 bonds were used to defease \$835,000 of the Hospital's Series 1995 bonds. Although the Refunding Bonds are not considered Hospital obligations, the County has recorded a receivable from the Hospital and the Hospital has recorded a liability to the County in an amount equal to the Hospital's portion of the Refunding Bonds. This liability is reflected as a bond payable to Claiborne County in the preceding schedule of bonds. The County placed securities in an irrevocable trust which will be sufficient to pay all principal and interest due on the defeased debt, of which \$570,000 was outstanding at June 30, 2009. As such, the defeased portion of the Series 1995 bonds is no longer considered a liability of the Hospital and was removed from the financial statements. The Hospital has agreed with the County on a new payment schedule.

The Series 1997 Bonds and the remaining Series 1995 Bonds are payable primarily from and secured by a pledge of the net revenues of the Hospital. In the event of a deficiency in such net revenues, the Bonds shall be payable from the unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the County. In guaranteeing the prompt payment of the principal, premium, if any, and interest on the Bonds, the credit of Claiborne County was irrevocably pledged.

On March 1, 2009, Claiborne County issued the Claiborne County, Tennessee, Local Government Public Improvement Bonds, Series V-J-1 and V-J-2. Series V-J-1, the Hospital Tax Exempt Portion, was issued at 4% for \$2,980,000. Accrued interest is due on June 1 and December 1 of each year until maturity on December 1, 2010. Series V-J-2, the Taxable Hospital Portion, was issued at 4.5% for \$1,030,000. Accrued interest is due on June 1 and December 1 of each year until maturity on June 30, 2014. The bonds are unsecured.

Scheduled principal and interest repayments on bonds are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$140,000	\$230,395
2011	3,127,759	164,345
2012	158,581	97,818
2013	175,000	90,260
2014	1,215,000	57,630
2015-2018	<u>489,997</u>	<u>54,135</u>
	<u>\$5,306,337</u>	<u>\$694,583</u>

Bond issuance costs at June 30, 2009 and 2008, follow.

	<u>2009</u>	<u>2008</u>
Bond issuance costs	\$210,290	\$138,029
Less accumulated amortization	<u>96,664</u>	<u>87,139</u>
Bond issuance costs, net	<u>\$113,626</u>	<u>\$50,890</u>

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Amortization expense for the years ended June 30, 2009 and 2008, was \$9,525 and \$7,743, respectively. Estimated amortization expense for the next five fiscal years is as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2010	\$42,633
2011	25,965
2012	14,059
2013	14,059
2014	10,374

NOTE H - COMPENSATED ABSENCES

The Hospital recognizes an expense and accrues a liability for compensated future employee vacation and other absences in the period in which employees' rights to such compensated absences are earned.

Compensated absences consist of paid days off including holidays, vacation and bereavement days, as well as sick leave days, to regular full-time employees. Compensated absence liabilities of \$827,797 and \$773,292 are accrued at June 30, 2009 and 2008, respectively.

NOTE I - EMPLOYEE HEALTH BENEFITS CLAIMS

The Hospital established a self-insurance program rather than carrying commercial insurance for employee health benefits because of its prohibitive cost and began covering all employee health benefits claims out of its assets. The Hospital provides coverage for up to \$50,000 for each covered person. Commercial insurance coverage is purchased for claims in excess of coverage. Settled claims have not exceeded this coverage in any of the past three years.

Claims liabilities are reported when it is probable a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported; estimates of claims that have been incurred but not reported are based on historical experience. Because actual claims liabilities depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount.

Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The amount of the claims liabilities at June 30, 2009 and 2008, and the changes in the claims liabilities during the years follow.

	<u>2009</u>	<u>2008</u>
Claims liabilities at beginning of year	\$381,328	\$303,928
Claims and changes in estimates	2,731,795	2,018,015
Loss claim payments	<u>2,787,812</u>	<u>1,940,615</u>
Claims liabilities at end of year	<u>\$325,311</u>	<u>\$381,328</u>

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Included in the claims liabilities are claims incurred but not reported of \$325,311 and \$381,328 at June 30, 2009 and 2008, respectively.

NOTE J – INCOME TAXES

Claiborne County Home Health Care and Multi-Specialty Medical, P.C. report on a calendar year basis for tax purposes. At December 31, 2009 and 2008, the Hospital had net operating loss carryforwards of approximately \$3,300,000 and \$2,500,000 for federal and state income tax purposes, respectively. The loss carryforwards relate to operating losses generated in the current and prior years by the Home Health and Multi-Specialty Medical and expire in years 2010 through 2024. The loss carryforwards may be offset against future taxable income as permitted by the Internal Revenue Code and the Tennessee Code Annotated. Because of continuing losses, no deferred tax asset has been recorded.

NOTE K - PENSION PLAN

Claiborne County Government and related entities, including the Hospital, participate in the Tennessee Consolidated Retirement System Pension Plan. The plan provides for both employee and employer contributions. Eligible employees are required to contribute 5% of their salaries to the plan. The Hospital contributes the employer's share of pension contributions. Contributions by the Hospital totaled \$652,069 and \$665,424 for 2009 and 2008, respectively. Information in regard to funding status, contribution requirements, and trends appear in the financial statements of Claiborne County and cannot be separately identified for the Hospital.

NOTE L - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of its cash deposits with financial institutions. The cash deposits are held at financial institutions located in and around Tazewell, Tennessee. See Note C for a breakdown of the deposits.

The Hospital is located in Tazewell, Tennessee. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2009 and 2008, was as follows.

	<u>2009</u>	<u>2008</u>
Medicare	20%	29%
TennCare/Medicaid	20	21
Other third-party payors	27	27
Patients	<u>33</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

NOTE M - COMMITMENTS AND CONTINGENCIES

Operating leases. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2009, that have initial or remaining lease terms in excess of one year.

<u>Year Ending June 30,</u>	<u>Minimum Lease Payment</u>
2010	\$321,854
2011	269,516
2012	162,691
2013	<u>108,848</u>
Total minimum lease payments	<u>\$862,909</u>

Rental expense included in operations amounted to \$355,785 and \$424,943 in 2009 and 2008, respectively.

Physician contracts. The Hospital has entered into contractual relationships with physicians to provide services to patients in the Hospital's service area. The contracts have terms of varying lengths and guarantee certain payments based on the physician's practice.

Management agreement. The Hospital entered into a five year agreement with another health system for administrative services during 2004 which was in effect through July 31, 2009. The cost of these services under this agreement was approximately \$189,000 annually. Subsequent to year end, the Hospital entered into a similar arrangement with a hospital management company. Costs under the new agreement are expected to be approximately \$228,000 per year through fiscal year 2014.

Also, during the year ending June 30, 1999, the Hospital entered into an agreement with this health system in development of a radiation therapy center (the Center). The agreement gives the Hospital a 49% undivided interest in the leasehold pursuant to a master facility lease. Additionally, the Hospital is entitled to receive 49% of the net income from operations after payment of all expenses. The agreement also holds the Hospital responsible for 49% of the ordinary and extraordinary expenses of the operations of the Center. During 2009, the Hospital recorded a profit of \$17,430. The deficit investments of \$155,650 and \$173,080, for 2009 and 2008, respectively, are not reported on the financial statements per the accounting principle for equity investments with deficit balances.

In the event the Hospital is required to divest itself of its interest in this arrangement, the sublease and management agreement shall terminate and all rights, title and interest immediately revert with the health system. The Hospital's right to receive 49% of net income and obligation to pay 49% of expenses also terminates. In exchange for the termination of the Hospital's interest, the health system will pay an amount equal to 49% of the appraised fair value of the Center, less expenses payable and plus net income receivable, which have accrued as of the termination date.

Tort liability. Because the Hospital is a division of Claiborne County, Tennessee, the Hospital relies on the "Tennessee Governmental Tort Liability Act." Effective for actions arising after June 30, 1987, this act provides that a self-insured governmental entity shall have the limits of liability which are equal to \$130,000 for bodily injury or death of any one person, with an aggregate liability not to exceed \$350,000 in any one incident.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Under a separate insurance policy, the Hospital carries a \$1,000,000 per event and \$3,000,000 aggregate general liability insurance plan. As of June 30, 2009 and 2008, management is of the opinion that adequate provisions have been made for any losses the Hospital may incur under the self-insurance program, and no claims existed that would not be adequately covered by the general liability policy currently in effect.

Claims-Made Insurance Policy. The Hospital is covered under a claims-made medical malpractice insurance policy with an independent carrier. The policy covers all claims reported to the carrier during the coverage period. Malpractice coverage was uninterrupted during the years ended June 30, 2009 and 2008. Any potential loss for unreported claims cannot be reasonably estimated by the Hospital at year-end. In the opinion of management, any unreported claims would not be material to the financial position of the Hospital. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE N - FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$28,507,943	\$28,581,426
Administrative services	<u>6,316,605</u>	<u>6,098,139</u>
	<u>\$34,824,548</u>	<u>\$34,679,565</u>

NOTE O – NET WORKING CAPITAL

Net working capital at June 30, 2009 and 2008, was \$5,212,201 and \$7,486,760, respectively.

NOTE P - NEW ACCOUNTING PRONOUNCEMENT

In July 2006, the FASB issued interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Hospital has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the Hospital will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies* ("SFAS No. 5"). SFAS No. 5 requires the Hospital to disclose or accrue for losses it believes are possible or probable, respectively, and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME
(A COMPONENT UNIT OF CLAIBORNE COUNTY, TENNESSEE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE Q - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through December 8, 2009, the date which the financial statements were available to be issued. On November 24, 2009, the Hospital Board of Directors voted to refinance certain bond obligations as part of a Claiborne County bond issuance expected in calendar year 2010. In the same action, the Board of Directors also approved obtaining an additional \$1,000,000 to complete build-out of the Hospital's Medical Office Building.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Claiborne County Hospital and Nursing Home (a component unit of
Claiborne County, Tennessee)

We have audited the consolidated financial statements of Claiborne County Hospital and Nursing Home (a component unit of Claiborne County, Tennessee) for the year ended June 30, 2009, and have issued our report thereon dated December 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) financial statements that is more than inconsequential will not be prevented or detected by Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) internal control. We consider deficiencies 2008-1 and 2009-1 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Claiborne County Hospital and Nursing Home's (a component unit of Claiborne County, Tennessee) consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, Management, the Claiborne County Government, and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Berk, Dearman, Neff, Huggins, PLLC

Chattanooga, Tennessee
December 8, 2009

CLAIBORNE COUNTY HOSPITAL AND NURSING HOME

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

PRIOR YEAR FINDINGS

Finding Control Number and Status

2008-1 Still outstanding for 2009

CURRENT YEAR FINDINGS AND RESPONSES

Finding 2008-1:

Condition: Several general ledger accounts were not reconciled to supporting documentation on a timely basis during the fiscal year and at year end.

Criteria: Procedures should be in place to reconcile account balances to supporting documentation on a timely basis.

Effect. Several general ledger accounts had material differences between the amounts calculated from the supporting documentation and the amounts per the general ledger. Journal entries were required during the audit to reconcile these accounts.

Recommendation: Reconciliation of accounts should be done on a timely basis (within 30 days after month and year end) to ensure all transactions are properly recorded.

Views of Responsible Officials: The officials concur with the finding. Due to personnel shortages, reconciliations of some accounts were not done on a timely basis. However, additional staff will be added to rectify the situation and timely reconciliations will be prepared on a monthly basis in the near future.

Planned Corrective Action: Management's response is located on page 30.

Finding 2009-1:

Condition: General journal entries were posted, but proper documentation and approval were not maintained.

Criteria: Approval and documentation of general journal entries prevent errors and provide a trail for accountability.

Effect: General journal entries could be posted erroneously through error or fraud.

Recommendation: Require proper documentation of all general journal entries, including the journal entry and support. This documentation should be approved by appropriate personnel and maintained as a trail for accountability.



December 8, 2009

Tennessee Department of Audit
Division of County Audit
Suite 1500
James K. Polk State Office Building
Nashville, TN 37243-1402

Claiborne County Hospital and Nursing Home (A Component Unit of Claiborne County, Tennessee) submits the following plan for corrective action regarding reportable conditions associated with our internal controls and compliance for the year ended June 30, 2009.

The "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" issued by Burk, Pearlman, Nebben & Huggins, PLLC, on December 8, 2009, referenced instances of noncompliance and reportable conditions. The corrective action taken on these items is as follows:

Finding 2008-1

Some accounts were not reconciled to supporting documentation in a timely manner at year end.

Corrective Action Plan:

We concur with the auditor's recommendation. We are implementing procedures to ensure timely reconciliation of accounts.

Finding 2009-1

General journal entries should be properly documented and approved.

Corrective Action Plan:

We concur with auditor's recommendation. We are implementing procedures to require paper documentation and approval for all general journal entries.

A handwritten signature in black ink that reads "Tim Brown".

Tim Brown
Administrator